



The accounting officer
Govan Mbeki Local Municipality
Private Bag X1017
Secunda
2302

30 November 2011

Reference: 03014REG10/11

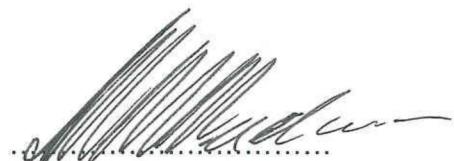
Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Govan Mbeki Local Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) (municipality) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Bryant Madliwa
Business Executive: Mpumalanga

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**REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE GOVAN MBEKI LOCAL MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Govan Mbeki Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xxx to xxx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2010 were restated as a result of an error discovered during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Impairments

10. As disclosed in note 4 to the financial statements, there was an impairment of assets amounting to R144 851 526, due to the reassessment of the useful lives of assets.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

12. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- Measurability: Indicators are not well defined and targets are not specific and measurable.

13. The following audit findings relate to the above criteria:

Reported objectives not consistent when compared to planned objectives

- The reported performance against predetermined objectives was not consistent with the approved integrated development plan.
- The actual achievements with regard to all planned objectives specified in the annual performance report for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

Planned and reported indicators not well defined

- For the selected objectives, valid performance management processes and systems that produced actual performance against the indicators did not exist for all of the indicators.

Reliability of information

14. The reported performance information was deficient in respect of the following criteria:

- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

15. The following audit finding relates to the above criteria:

The content of the integrated development plan was inaccurate and incomplete

- The integrated development plan did not include the key performance indicators and performance targets determined in accordance with the performance management system, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

Expenditure management

16. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Asset management

17. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

INTERNAL CONTROL

18. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

19. Oversight responsibility was not exercised regarding financial and performance reporting and compliance as well as related internal controls.

20. Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

Financial and performance management

21. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

22. Controls were not implemented over daily and monthly processing and reconciling of transactions.

23. Formal controls over information technology (IT) systems were not designed and implemented to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

24. Appropriate risk management activities were not implemented to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, were conducted and that a risk strategy to address the risks was developed and monitored.

*Auditor-General
Nelspruit*

30 November 2011



Auditing to build public confidence